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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 93  
22 MARCH to 28 MARCH 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

An assessment of current Japanese views on conclusion of a peace treaty shows that the former desire of a quick treaty as a solution to all the nation's ills has been in part replaced by a more realistic concern over any treaty's necessarily mixed blessings (p. 2).

Contrary to the opinion of some observers that the "international" leaders of the Chinese Communist Party are about to embark on the conquest of Southeast Asia, it appears that "nationalists" and "internationalists" alike are agreed on a limited campaign against Tibet, Hainan, and Taiwan (p. 2). Meanwhile, within China proper, the Party is urging its members to cement good relations with the masses and "democratic elements" (p. 4).

Australia's coalition conservative government has won the first round in its fight to root out the minority Communist leadership in that nation's vigorous trade union movement (p. 4).

NEWS NOTES

Dutch recognize Peiping regime

Thai "boy King" returns.

NOTE: Section III contains a summary of the current problems faced by the Republic of Korea.

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion, with "A" representing the most important.

-2-

## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

### JAPAN

Japanese views on peace treaty change--While many conflicting attitudes on the subject of an eventual peace treaty are continually being voiced both in the Diet and in the Japanese press, a general change in Japanese public opinion has been discernible in the past six months. Lessening public enthusiasm for a treaty is perhaps the most notable of these changes. Although early conclusion of a treaty has long been regarded as a panacea for Japan's many problems, there is now considerable public agreement that, while a treaty would end Japan's abnormal international status of the past five years, it will not be an unmixed blessing. This attitude probably derives from the Japanese preference for an "overall" peace conference, at which Communist as well as non-Communist nations would be represented. The Japanese are in realistic general agreement that any forthcoming peace conference is almost certain to be a less satisfactory "separate" one, boycotted by the Communist nations.

"B"

The question of Japan's future security is undoubtedly a major consideration in this regard. A policy of neutrality, while undoubtedly desired by all Japanese, probably has few non-Communist supporters who actually consider it a realistic course. Indeed, the conservative majority in Japan appears to feel that a continuation of the status quo offers the best hope for security, since a "separate peace" would leave Japan still "at war" with the USSR -- the one nation from which Japan feels the greatest need to be protected.

Meanwhile, the Japanese appear to find a psychological safety valve of sorts in the discussion of territorial aspirations. Paradoxically, in view of the convictions regarding a non-Communist "separate peace" treaty, much of the territorial discussion concerns the return to Japan of the USSR-occupied Kurils and particularly the southern islands. The Japanese also express a more realistic interest in restoration of the Bonins and the Ryukyus, particularly Amami Oshima (the Northern Ryukyus), which was formerly attached to Kagoshima Prefecture.

### CHINA

Offensive in Southeast Asia?--Some observers of the China scene are presently predicting Chinese Communist armies will launch a military offensive in Southeast Asia in the near future, as a consequence of conflict between the "internationalist" and the "nationalist" factions of the Chinese Communist Party. The argument runs that the "nationalist" faction in China believes a solution of the Party's present outstanding problems -- economic deterioration and peasant opposition --

"A"

S E C R E T

-3-

requires large-scale demobilization of the Communist armies and an effort toward accommodation with the West. The "internationalists", in contrast, are represented as opposing both demobilization and accommodation and favoring military action in Southeast Asia instead, beginning with Indochina. This course of action, it is said, would simultaneously (1) defeat the "nationalist" faction, (2) prevent accommodation with the West, and (3) promote international Communist interests in Southeast Asia.

Timing of the postulated offensive is stated in terms of the Chinese Communist need to attack Indochina before US aid to the area, in the form of ECA funds and military supplies, can be effective

25X1

Although there may be important differences of opinion on such issues as the degree of subservience to the USSR, policy toward the West, and methods to be employed to meet the economic crises and peasant unrest, there is at present no reliable evidence which suggests that Party factions in China are at variance regarding Communist military objectives. Numerous Communist pronouncements have indicated these objectives to be, in point of fact: (1) the elimination of all Nationalist resistance; (2) the extension of Communist control over all territory which formerly -- actually or nominally -- acknowledged Nationalist suzerainty; and (3) the achievement of these aims in 1950. Nothing in the present situation suggests that either Chinese Communist overall or factional interests would be best served by deviating from these stated objectives. Moreover, present international Communist strategy, formulated and announced by the USSR and endorsed by the CCP, does not envisage the employment of the regular armed forces of a Communist nation for large-scale intervention in "liberation" movements elsewhere, with the result that the Chinese Communist "internationalists", perhaps even more than the "nationalists", would be loathe to advocate an attack on Indochina either in order to solve

S E C R E T

-4-

domestic issues or as a technique of expansion. Indeed, the Chinese Communists' economic difficulties, which derive at least in part from the Nationalist blockade and associated air attacks, could be more readily relieved by carrying out the stated Communist military aims -- occupation of Taiwan and Hainan and elimination of the Nationalist Navy and Air Force -- than by adventuring in Southeast Asia.

Party urges better relations with "people"---The Central Committee of the Chinese Communist Party recently instructed all Party members to extend and strengthen their links both with the masses of the people and with non-party democrats. The CCP directive urged the study of speeches on this subject made by Stalin in 1933 and by MAO Tse-tung in 1941. Quoting from the latter speech, the broadcast concluded "... it (the Communist Party) should be supervised by the people and not run counter to the will of the people. Its members should stand among the people, definitely not above the people. Our principle of implementing democratic cooperation with non-party people is fixed and immutable."

"B"

This Party announcement, which is in line with the current Communist campaign to improve the work of rural cadres in East and Central China, suggests that the CCP has become concerned with the general attitude of the Chinese people toward their regime and has decided not only to reindoctrinate its members, but also to propagandize the Party more aggressively as "the friend of the masses", responsive to their wishes. The move lends weight to current reports of widespread Chinese disillusionment with the Communists, even among those students and intellectuals who have been the Party's most articulate supporters and apologists.

#### AUSTRALIA

Government wins first test with Communists---Vigorous action taken by the Liberal-Country coalition Government against Communist labor leaders -- a first step toward implementing a campaign pledge to outlaw the Australian Communist Party -- has met with initial success. Invoking powers under the Emergency Crimes Act, the Government threatened to prosecute Communist leaders of the Waterside Workers Federation, which was engaged in a rolling strike on the Brisbane waterfront. As a result, on 27 March, Federation leaders were forced to suspend the strike for two months and submit their claims to arbitration.

"A"

The success of the Government's first bout with a Communist-led labor organization indicates that it will receive greater support from trade union moderates on the Communist issue than had been generally predicted. Observers had feared that clumsy Governmental handling of labor policy, instead of weakening the Communists in Australia's trade unions, would create sympathy for them among the rank-and-file of labor.

S E C R E T

S E C R E T

-5-

It now appears, however, that Minister of Labor Harold Holt enjoys the confidence of most top Australian union leaders and even has allies within the opposition Labor Party, who may be expected to advise and support him to the extent commensurate with political expediency. Although the conservative Government must expect a normal amount of labor difficulty during coming months, it is highly probable that, with careful planning, continued cooperation or at least non-interference from Australia's majority trade union moderates can be expected.

NEWS NOTES

The Netherlands Government has extended de jure recognition to the Chinese Communist regime. According to an announcement from The Hague, the Secretary of the Dutch Embassy in Peiping submitted a note informing the "Central People's Government of the People's Republic of China" of the Dutch action. The Dutch Government simultaneously notified the Ambassador of the National Government of China at The Hague that it was terminating its recognition of the CHIANG Kai-shek regime. No mention was made in the announcement of any diplomatic move by the United States of Indonesia, a partner in the Netherlands-Indonesian union, which has as yet neither recognized nor been recognized by the Chinese Communists.

25X1

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-6-

25X1



Thailand's King, 22-year-old Phumiphon Aduldet, has returned to Bangkok from Switzerland after more than a three-year absence. His immediate agenda: (1) elaborate six-day cremation rites for his brother, the late King Ananda Mahidol, who was shot to death in June 1946; (2) marriage on 28 April; (3) a "private" coronation on 5 May, accompanied by a US naval air demonstration.

~~SECRET~~

S E C R E T

-7-

### SECTION III. OUTLOOK IN KOREA

Police and Army units of the Korean Republic scored an important advance in the endless campaign against Communist guerrilla operations on 21 March when they routed one of the two remaining large, organized guerrilla units in southern Korea. Since the establishment of the Republic, the well-organized and technically competent Communist-led guerrillas have presented a continuous threat to the Republic's internal security. Although the Republic's police force has been expanded from 35,000 to 50,000 since May 1948, they have proved unable alone to suppress guerrilla activities and Army troops have also been assigned to internal security functions. Because of this commitment, the Republican Army has been delayed in its training program and has been unable to deploy its forces to maximum advantage against the ever-present threat of overt aggression from northern Korea. This winter has seen substantial progress in reducing the internal guerrilla threat, however, and a force of 10,000 "Combat Police" are now being trained to relieve the Army of internal security responsibilities.

Although the guerrilla threat has been successfully contained for the immediate future, and the young Republic's internal security is reasonably well established, this goal has been reached only at the expense of economic and political objectives necessary for the nation's long-term survival. President Rhee has consistently felt that his primary tasks are (1) to unify Korea, and (2) to oppose the immediate Communist threat of subversion, guerrilla warfare and invasion from the North. In his approach to these tasks, Rhee has given top priority to the development of the Republic's armed forces and the forging of a unified, anti-Communist "National Front" in political affairs.

In this process, the nation's economic welfare has been neglected and economic problems have been seriously magnified by the extravagant Army and Police requirements for funds, equipment, and raw materials. Although postwar recovery in Korea's agricultural and industrial productivity reached a high in 1949, the Government's uncontrolled deficit spending threatens to erase the positive effects of these concrete advances.

Deterioration of Korea's financial structure can be traced directly to: (1) fiscal ineptitude on the part of Korean officials; (2) large and uncontrolled expenditures -- totalling over 50% of the budget -- for military establishment; (3) failure to collect taxes; (4) politically motivated large-scale government subsidies; and (5) continued government use of inflationary overdrafts with the Central Bank, in order to meet currency requirements. The extent of the financial crisis can be seen in financial statistics: the deficit for FY 1950 was anticipated as won 24 billion; it is now estimated that the deficit will be closer to won 60 billion. The Government overdraft



S E C R E T

-8-

with the Central Bank, meanwhile, has grown from Won 40 billion in December 1948 to Won 86 billion in the same month of 1949. In the same period, currency in circulation rose from Won 43 billion to Won 76 billion.

In order to curb this inflation, the ECA Mission in Korea was forced during 1949 to suspend release of "counterpart funds" earmarked for essential construction projects. Unless such projects can be started at an early date, Korean import requirements will remain far in excess of foreign exchange earnings upon the scheduled completion of the ECA program in 1952. In that event, and in the absence of continued large-scale US dollar aid, the economy and the Republic will collapse.

In a further effort to combat inflation, ECA recently instituted a Joint Economic Stabilization Committee, composed of responsible Korean Cabinet members and ECA advisors, to consider ways and means of bringing stability to the Korean economy. Although some concrete advances have been made, it appears that President Rhee and his advisors still regard Korea's inflation as no more than seasonal upturn and believe that limitations on currency in circulation will be sufficient to halt the inflation. Thus, despite ECA efforts, Korea's basic economic distress continues to threaten the nation's long-range stability.

In the political field, the threat to stability, while perhaps not so obvious as in the field of economics, is equally serious. Faced with the problem of Communist infiltration and subversion, Korea's Government has resorted to the only counter-measures familiar to the mass of its officials -- Japanese police state methods. The Government has been successful in suppressing Communist activities and in ferreting out Communist cells in the Army, police, and Government. In the process, however, most of the human rights and civil liberties guaranteed by the Korean Constitution have been severely compromised. Although abstract ideas of human rights are understood by only a small minority of Koreans, the support of this influential group of intelligentsia is essential to the success of the Government. Furthermore, all Koreans, educated or not, understand and resent the physical violence and intimidation to which many innocents have been subjected in the course of the Government's program to "purify" thoughts and develop "unity."

Recent unsuccessful attempt by the National Assembly to reduce the powers of President Rhee and establish a "responsible cabinet" system of government, for example, was more than a mere power play on the part of the conservative, wealthy and relatively talented opposition Democratic-Nationalist Party. It was, rather, a measure of the Assembly's disgust with the Government's failure to curb

S E C R E T

~~SECRET~~

-9-

**CONFIDENTIAL**

inflation, and a protest against the excesses of the police. The Assembly, itself, has not been immune from intimidation. 13 Assembly members, who belonged to the "Young Progressive Group" were recently sentenced by the Government on charges of Communist affiliations. None of the evidence presented in court against them would be accepted in Western judicial proceedings and the burden of the prosecution charge rested on the fact that they opposed "national policy" and supported policies which coincided with the current Communist line.

The net result of Rhee's attempt simultaneously to eliminate both factionalism and the Communist threat has been to silence and intimidate practically all constructive critics of his regime, to alienate much of his popular support both in the provinces and in the Assembly, and to pave the way for a possible split in Korea's nationalist, anti-Communist camp. Such a schism would leave the young Republic hopelessly torn by internal dissension and an easy prey to Communist penetration. Thus, a nearly-blind concentration on Korea's security problems has resulted in the growth of economic and political evils which, if not stemmed, will seriously threaten the new-born nation's survival.

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